2019 ANNUAL BORROWING PLAN

Contents

1. General description

The 2019 Annual Borrowing Plan has been developed in accordance with the targets and benchmark indicators of the 2019-2021 Medium-Term Government Debt Management Strategy, 2019-2023 Programme for RA Government Debt Reduction and is based on the macroeconomic framework and indicators applied for the preparation of the 2019 State Budget of the Republic of Armenia.

Since 2018 the Government of Armenia has upgraded fiscal rules to increase the efficiency of the fiscal policy in stimulating the economy and long-term economic growth, as well as to ensure debt sustainability. The Government has developed and implemented more flexible and comprehensive fiscal approaches and rules which are compliant with the current characteristics of Armenia's economy. The draft of 2019 State Budget has been developed based on new fiscal rules.

The main indicators of 2019 State Budget of RA

Indicators	2019
GDP, AMD billion	6,756.2
Real growth, %	4.9
GDP deflator, %	4.0
State Budget revenues, AMD billion	1,496.5
State Budget expenditures, AMD billion	1,648.1
State Budget deficit, AMD billion	(151.6)
State Budget deficit/GDP, %	(2.2)
USD / AMD exchange rate	486.55

2. Financing needs and deficit financing sources

According to general indicators of the 2019 State Budget, the gross financing needs will be AMD 424.3 billion, in particular:
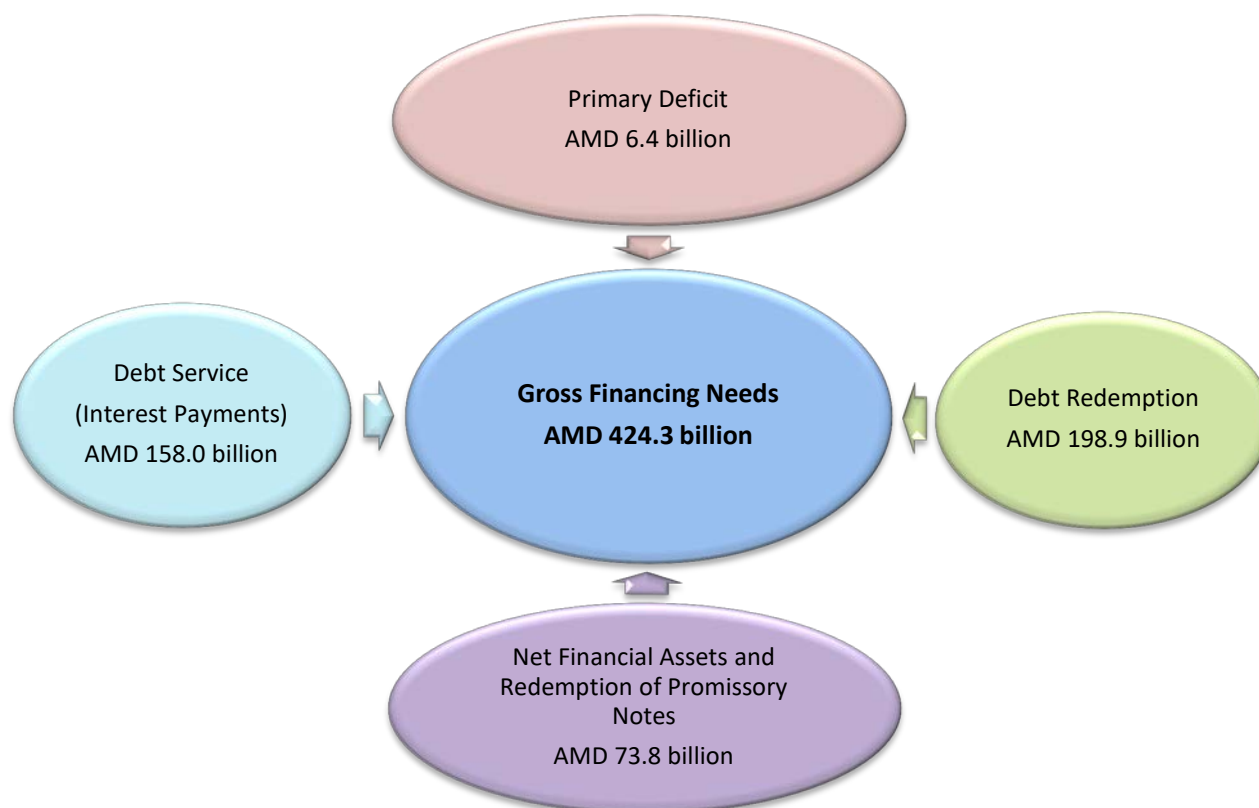
It is planned to finance 43.3% of financing needs through domestic borrowings, and 56.7% – through external borrowings. Treasury bonds in amount of AMD 183.2 billion will be allocated with expected AMD 183.7 billion proceeds, and AMD 240.6 billion will be financed by external loans.

The deficit of the 2019 State Budget will constitute AMD 151.6 billion, 35.7% of which is planned to be financed from domestic sources, and the 64.3% from external sources.

2019 State Budget Deficit financing sources are the following:

Indicators, AMD billion	2019 (State Budget)	2019 (2019 –2021 MTEF)
Total deficit	**151.6**	**150.6**
including:		
Domestic sources	**54.1**	**42.1**
of which:		
Net borrowings	**69.1**	**69.2**
Proceeds from allocation of treasury bonds	183.7	180.0
Treasury bonds redemption/buyback	(113.7)	(110.0)
Redemption of promissory notes	(0.9)	(0.8)
Net financial assets	**(15.1)**	**(27.1)**
Provision of loans and borrowings (net)	(24.4)	(35.4)

Indicators, AMD billion	2019 (State Budget)	2019 (2019 –2021 MTEF)
Free residue of 2019 State Budget at the beginning of the year	9.3	8.4
Use of the stabilization deposit account	–	–
External sources	**97.5**	**108.6**
of which:		
Net borrowings	**155.4**	**164.9**
Receipt of loans and borrowings	240.6	253.5
Redemption of the received loans and borrowings	(85.2)	(88.6)
Net financial assets	**(57.9)**	**(56.3)**
Provision of loans and borrowings (net)	(57.1)	(55.6)
Acquisition of stocks and other participation in equity	(0.8)	(0.8)

3. Debt instruments for deficit financing

In 2019, it is planned to finance the State Budget deficit through net borrowings in the amount of AMD 225.4 billion, of which AMD 70 billion through Treasury bonds and AMD 155.4 billion through external loans.

According to 2019-2021 Medium-Term Government Debt Management Strategy, 2019 State Budget deficit net financing through borrowings will be AMD 234.9 billion. Moreover, the financing through Treasury bonds was unchanged, while the financing through external loans was reduced by AMD 9.5 billion. The difference is due to changes in deficit financing sources in terms of the same level of 2019 State Budget deficit. The amount of net financing from domestic sources was increased by AMD 12 billion (AMD 11 billion in net provision of loans and borrowing and AMD 0.9 billion in use of free residue of 2019 State Budget at the beginning of the year). And net financing from external sources was decreased by AMD 11.1 billion, particularly AMD 9.5 billion decrease in net financing from external loans and AMD 1.6 billion increase in net provision of loans and borrowing.

3.1. Deficit financing by Treasury bonds

The budget deficit financing by Treasury bonds will be done through short-term (3, 6, 9 and 12 months), medium-term (3 and 5 years), long-term (10 and 30 years) and savings bonds.

Auctions of T-Bills with tenor of 52, 39, 26 and 13 weeks will be organized at least once in every two months. Additional T-Bills issuances can be done as well; moreover, issuances with maturity period of up to 3 weeks can be done for cash flow management purposes, whereas issuances with maturity period of 3-12 months can be done in frames of coordination of the fiscal and monetary policies.

New T-Notes with tenor of 3 and 5 years and new 10 year T-Bonds will be issued in 2019.

The information about the indicative volumes of the auctions will be published quarterly.

The information about the volume (range) and tenor of bonds subject to allocation or buyback will be published prior to each auction, after the discussion with Primary Dealers.

Treasury bonds buybacks are also planned during 2019. In 2019, the 70-80% of the buybacks is planned for smoothening the redemption profile, and 20-30% - for enhancing the liquidity. During the placement period of each issue, the Ministry of Finance does not implement buyback of those bonds (on-the-run).

The list of benchmark bonds is published quarterly, on the official website of the Ministry of Finance, 10 days before each quarter.

The switch auctions system of Treasury bonds will be implemented in 2019.

Treasury bonds auctions calendar is presented below.

Treasury bonds auctions calendar

January 2019

Week	MON	TUE	WED	THU	FRI	SAT	SUN
1		1	2	3	4	5	6
2	7	8	9	10	11	12	13
3	14 (Short)	15 (Long)	16	17	18	19	20
4	21 (Short)	22	23	24	25	26	27
5	28 (Short)	29	30	31			

February 2019

Week	MON	TUE	WED	THU	FRI	SAT	SUN
5				1	2	3	
6	4 (Short)	5	6	7	8	9	10
7	11	12 (Medium)	13	14	15	16	17
8	18 (Short)	19	20	21	22	23	24
9	25 (Short)	26	27	28			

March 2019

Week	MON	TUE	WED	THU	FRI	SAT	SUN
9					1	2	3
10	4 (Short)	5	6	7	8	9	10
11	11	12 (Medium)	13	14	15	16	17
12	18 (Short)	19	20	21	22	23	24
13	25 (Short)	26	27	28	29	30	31

April 2019

Week	MON	TUE	WED	THU	FRI	SAT	SUN
14	1 (Short)	2	3	4	5	6	7
15	8	9 (Long)	10	11	12	13	14
16	15 (Short)	16	17	18	19	20	21
17	22	23	24	25	26	27	28
18	29 (Short)	30					

May 2019

Week	MON	TUE	WED	THU	FRI	SAT	SUN
18			1	2	3	4	5
19	6 (Short)	7	8	9	10	11	12
20	13	14 (Medium)	15	16	17	18	19
21	20 (Short)	21	22	23	24	25	26
22	27 (Short)	28 (Short)	29	30	31		

June 2019

Week	MON	TUE	WED	THU	FRI	SAT	SUN
22						1	2
23	3 (Short)	4	5	6	7	8	9
24	10	11 (Medium)	12	13	14	15	16
25	17 (Short)	18	19	20	21	22	23
26	24 (Short)	25	26	27	28	29	30

July 2019

Week	MON	TUE	WED	THU	FRI	SAT	SUN
27	1 (Short)	2	3	4	5	6	7
28	8	9 (Long)	10	11	12	13	14
29	15 (Short)	16	17	18	19	20	21
30	22 (Short)	23	24	25	26	27	28
31	29	30	31				

August 2019

Week	MON	TUE	WED	THU	FRI	SAT	SUN
31				1	2	3	4
32	5 (Short)	6	7	8	9	10	11
33	12	13 (Medium)	14	15	16	17	18
34	19 (Short)	20	21	22	23	24	25
35	26 (Short)	27	28	29	30	31	

September 2019

Week	MON	TUE	WED	THU	FRI	SAT	SUN
35							1
36	2 (Short)	3	4	5	6	7	8
37	9	10 (Medium)	11	12	13	14	15
38	16 (Short)	17	18	19	20	21	22
39	23 (Short)	24	25	26	27	28	29
40	30						

October 2019

Week	MON	TUE	WED	THU	FRI	SAT	SUN
40		1	2	3	4	5	6
41	7	8 (Long)	9	10	11	12	13
42	14 (Short)	15	16	17	18	19	20
43	21 (Short)	22	23	24	25	26	27
44	28 (Short)	29	30	31			

November 2019

Week	MON	TUE	WED	THU	FRI	SAT	SUN
44				1	2	3	
45	4 (Short)	5	6	7	8	9	10
46	11	12 (Medium)	13	14	15	16	17
47	18 (Short)	19	20	21	22	23	24
48	25 (Short)	26	27	28	29	30	

December 2019

Week	MON	TUE	WED	THU	FRI	SAT	SUN
48							1
49	2 (Short)	3	4	5	6	7	8
50	9	10 (Medium)	11	12	13	14	15
51	16 (Short)	17	18	19	20	21	22
52	23 (Short)	24	25	26	27	28	29
1	30	31					

Legend:
- 🟥 Short-term
- 🟦 Medium-term
- 🟨 Long-term

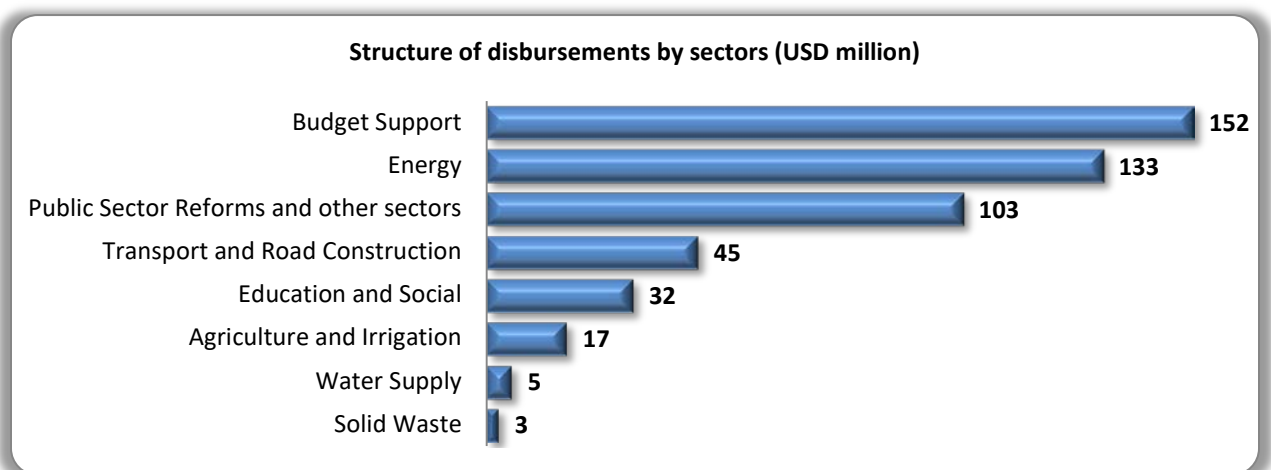## 3.2. Deficit financing by external loans

For financing the State Budget deficit in 2019, it is planned to disburse AMD 238.2 billion (USD 489.7 million) from external loans[1]. Moreover, disbursements from budget support loans will amount to AMD 74.0 billion (USD 152.198 million), and disbursements from project loans will be AMD 164.2 billion (USD 337.6 million).

39.4% of 2019 disbursements will be made from Russian loans, 30.7% from budget support loans (subject to negotiations), 12.3% from World Bank (IBRD and IDA) and 10.8% from Asian Development Bank loans. The structure of disbursements by lenders is as follows:

Structure of disbursements by lenders (%)

- IDA 2.0%
- EBRD 1.5%
- EIB 1.9%
- IFAD 0.6%
- IBRD 10.3%
- subject to negotiation 30.7%
- ADB 10.8%
- OPEC 0.05%
- EDB (EFSD). 0.6%
- Russia 39.4%
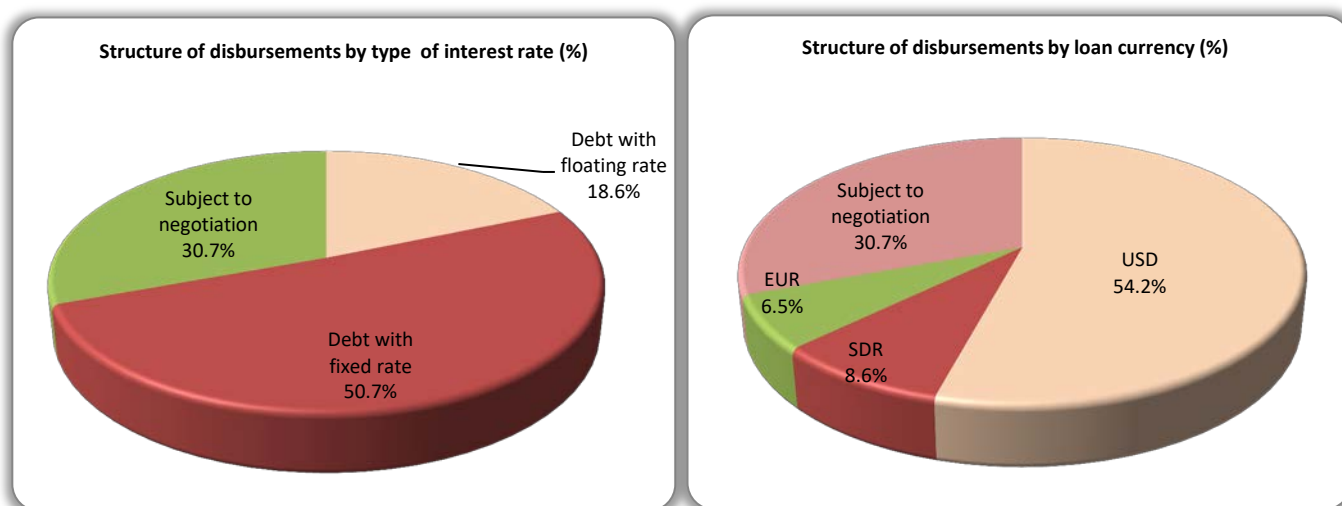- France 0.7%
- Germany (KfW) 1.5%
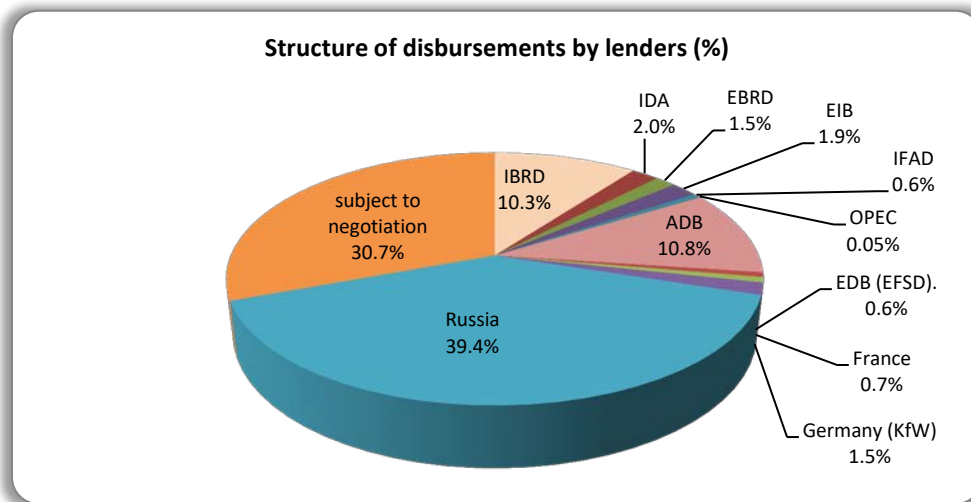
The largest volume of disbursements from project loans is planned from Armenian Nuclear Power Plant Rehabilitation Project (USD 104.9 million).

The structure of disbursements by sectors is as follows:

Structure of disbursements by sectors (USD million)

- Budget Support: 152
- Energy: 133
- Public Sector Reforms and other sectors: 103
- Transport and Road Construction: 45
- Education and Social: 32
- Agriculture and Irrigation: 17
- Water Supply: 5
- Solid Waste: 3

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[1] The difference between the deficit financing from external loans and the disbursements from external loans is caused by the residual cash available on the special accounts opened in frames of the corresponding loan programs.
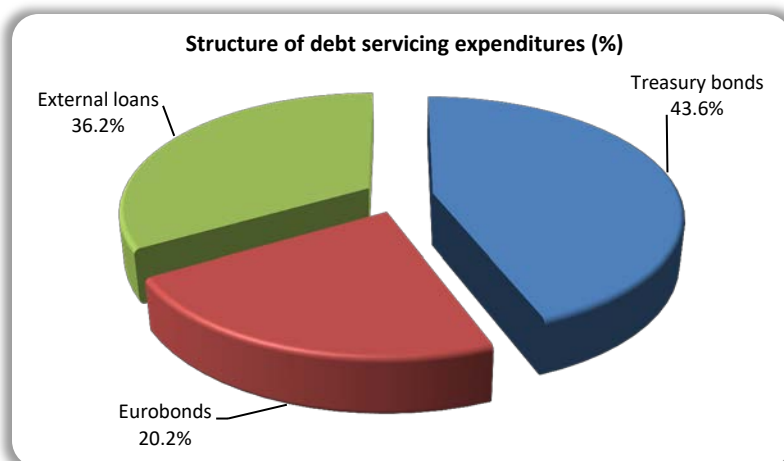
In 2019, the largest share of disbursements (54.2%) will be made from the loans provided in USD.

Structure of disbursements by type of interest rate (%)

Debt with floating rate 18.6%
Subject to negotiation 30.7%
Debt with fixed rate 50.7%

Structure of disbursements by loan currency (%)

Subject to negotiation 30.7%
EUR 6.5%
SDR 8.6%
USD 54.2%

4. Redemption and servicing of Government debt

In 2019, AMD 356.9 billion is required for the redemption and servicing of the government debt, of which the redemptions of the debt will constitute AMD 198.9 billion, and the interest payments - AMD 158.0 billion.

AMD billion	Redemption	Interest payment	Total
Treasury bonds	113.7[2]	68.8	**182.5**
Eurobonds	-	32.0	**32.0**
External loans	85.2	57.2	**142.4**
Total	**198.9**	**158.0**	**356.9**

Structure of debt servicing expenditures (%)

External loans 36.2%
Treasury bonds 43.6%
Eurobonds 20.2%

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[2] The indicator includes AMD 24 billion planned for Treasury bonds buybacks.

Interest and redemption expenditures for Government foreign currency denominated debt are calculated based on USD/AMD exchange rate as of November 1, 2018, and the assumption that 6-month USD Libor rate will be in average 3.1% and 6-month Euribor will not exceed zero level.

AMD 24 billion of redemption amount of the Treasury bonds (AMD 113.7 billion) is planned for buybacks of bonds.

It is planned to pay AMD 142.4 billion (USD 292.5 million) for the redemption and servicing of external loans. The structure of the planned payments by lenders is as follows:

USD million	Interest payment	Redemption	Total
International Bank for Reconstruction and Development	30.5	2.7	33.2
International Development Association	24.3	61.1	85.4
European Bank for Reconstruction and Development	0.9	4.0	5.0
European Investment Bank	2.3	1.5	3.8
International Fund for Agricultural Development	0.6	2.7	3.3
OPEC Fund for International Development	2.3	3.4	5.7
Asian Development Bank	24.4	23.7	48.1
European Union	2.6	-	2.6
International Monetary Fund	-	29.3	29.3
Eurasian Development Bank	6.7	-	6.7
Germany (KfW)	5.0	10.9	15.8
Russian Federation	12.5	20.8	33.3
France	1.8	0.2	2.0
USA	0.3	1.8	2.1
Japan	2.0	10.3	12.3
Abu Dhabi Fund for Development	0.2	0.7	0.9
Export–Import Bank of China	0.5	-	0.5
KBC Bank (Belgium)	0.0	0.6	0.6
Raiffeisen Bank (Austria)	0.1	1.0	1.1
Erste Bank (Austria)	0.1	0.2	0.4
Subject to negotiation	0.5	-	0.5
Total	**117.5**	**175.0**	**292.5**

The 2019 expenditures for Eurobonds service will amount to USD 65.8 million (coupon payments for the outstanding 2020 and 2025 bonds).

5. Government debt at the end of 2019

Due to 2019 State Budget projections, the Government debt of Armenia will constitute AMD 3,364 billion or 49.8% of the GDP at the end of 2019, which will decrease by 0.9 pp. against 2018 Debt/GDP ratio.

	As of 31.12.2017	As of 31.12.2018	As of 31.12.2019
Government debt, AMD billion	2,988	3,137	3,364
Government debt, USD million	6,173	6,448	6,913
Government debt, % to GDP	53.7	50.7	49.8

As a result of the implementation of 2019 Annual Borrowing Plan, the benchmark indicators will be within the frames set by the 2019-2021 MTDS and will deviate slightly from the forecasts made for 2019 by the Strategy.

	Benchmark	2019 (State Budget)	2019 (2019-2021 strategy)
Refinancing risk			
Average time to maturity	**8 – 11 years**	8.3 years	8.0 years
Share of the Treasury bonds maturing in 1 year in the outstanding Treasury bonds (at the end of the year)	**max 20%**	13.7%	14.2%
Interest rate risk			
Share of Fixed Rate Debt in total debt	**min 80%**	83.9%	82.2%
Exchange rate risk			
Share of domestic debt in total debt	**min 20%**	21.8%	20.8%
Share of AMD denominated debt in total debt	**min 20%**	19.6%	18.8%

In 2019, the weighted average interest rate of Government debt will be 5.2%. The Government debt servicing expenditures will be 2.3% of GDP and 9.6% of the total expenditures of the 2019 State Budget.

|	2017	2018	2019
Government Debt Service (Interest Payments)			
AMD billion	122.1	139.3	158.0
% of GDP	2.2	2.2	2.3
% of Budget Expenditures	8.1	9.2	9.6
Weighted average interest rate of Government debt, %	4.9	4.9	5.2

It is intended to increase the share of AMD denominated Treasury bonds in the Government debt structure during 2018-2019, which is projected 18.7% in 2018 and 19.6% in 2019.

The government debt will have the following structure:

	As of 31.12.2017	As of 31.12.2018	As of 31.12.2019
Structure by residency, AMD billion*			
Domestic Debt	620	664	734
External Debt	2,369	2,473	2,630
Structure by type of instruments, AMD billon			
External loans and Credits	1,947	2,054	2,211
Treasury Bonds	550	588	658
Eurobonds	484	487	487
External Guarantees	4	4	4
Domestic Guarantees	4	4	4
Structure by currency, AMD billion			
AMD denominated	550	588	658
FX denominated	2,439	2,549	2,705
Structure by type of interest rate, AMD billion			
Floating	403	490	540
Fixed	2,585	2,648	2,823

* 2018 and 2019 figures of Treasury Bonds and Eurobonds are based on actual shares by residency as of October 31, 2018.
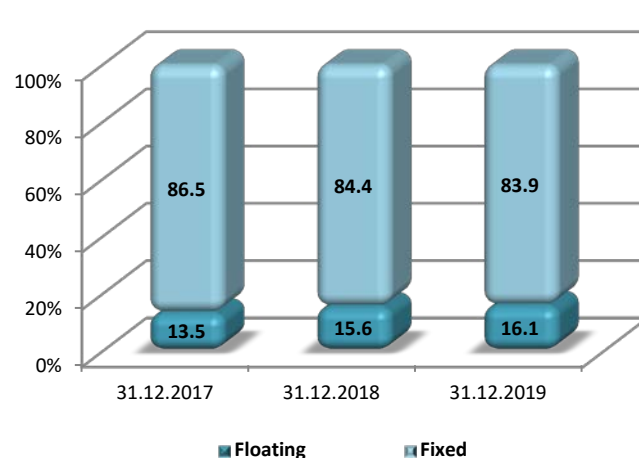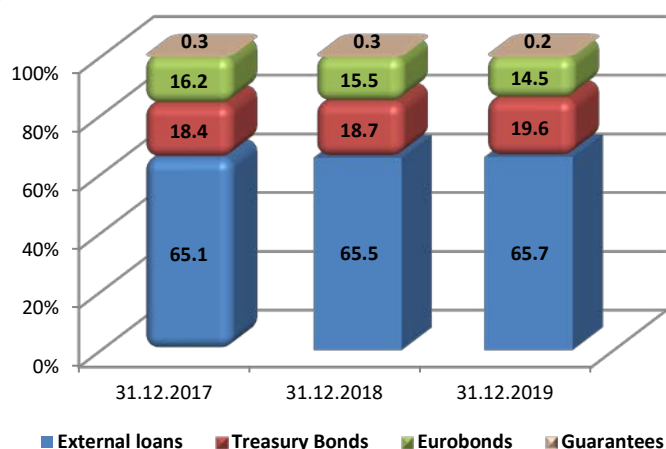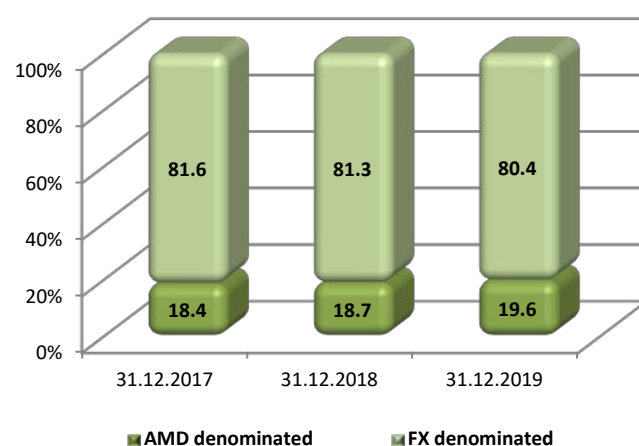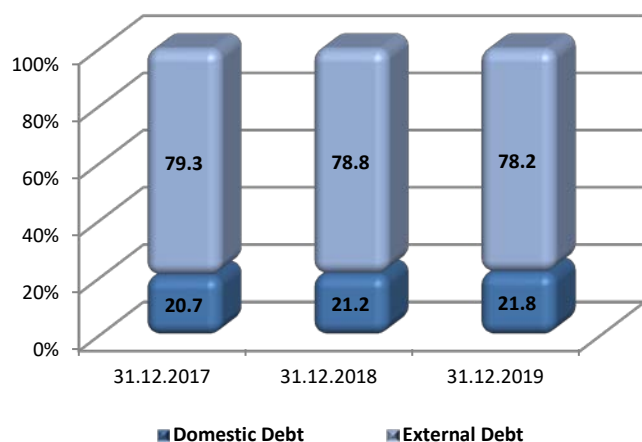
The World Bank's (IBRD and IDA) share in external loans of Government outstanding debt will be 39.0% at the end of 2019. Government external loans structure by lenders will be the following:
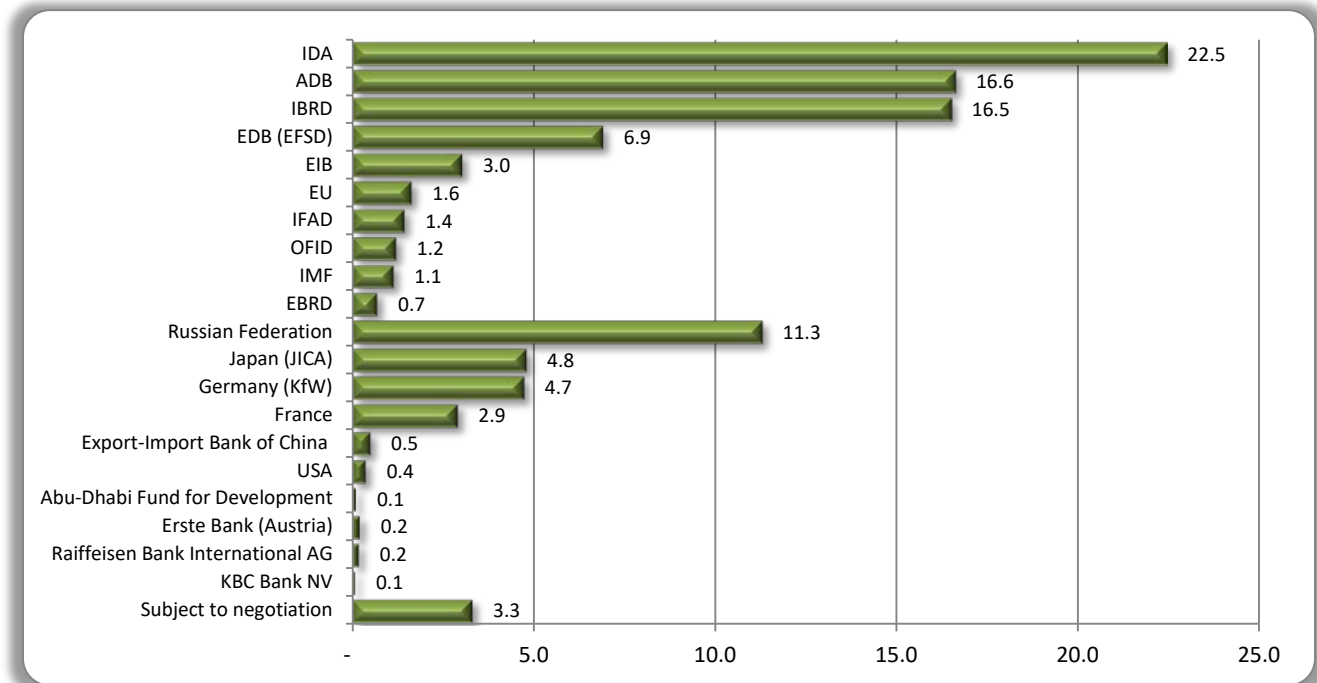
As of the end of 2019 the Government debt redemption profile will be scattered until 2054.